



**LONEDELL R-14 SCHOOL DISTRICT
YEAR ENDED JUNE 30, 2001**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-31
April 22, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

April 2002

The following problems were discovered as a result of an audit conducted by our office of the Lonedell R-14 School District.

In January 1999, the Lonedell R-14 School District purchased 25.8 acres of land for \$98,900 (\$3,833 per acre). Although there were no formal plans on how the district was going to finance the construction and operation of a new school building, school district officials indicated the land was for a future middle school to relieve the overcrowding at the current school. An appraisal of the land was not obtained prior to the purchase. According to the Franklin County Assessor's Office, the land purchased is appraised at approximately \$28,380 (\$1,100 per acre). At the time of this purchase, the district's financial situation was poor and the district was placed on the financially stressed list by the Missouri Department of Elementary and Secondary Education the following year.

The district paid \$2,083 to the father of a board member to clear the new property without adequate support for the cost. The board approved paying up to \$3,050 to this person to clear the land; however, there was no documentation indicating how this amount was determined or that the district had obtained price quotes from others for this service.

In July 2001, the school district refinanced \$475,000 in general obligation bonds. The district sold these bonds through a negotiated instead of a competitive sale. In addition, the School Board did not select the bond underwriter competitively, but used an underwriter they were familiar with. The School Board relied upon the advice of the bond underwriter instead of seeking open bids assuring the most competitive rate of return for the taxpayers.

The district currently does not have a formal bidding policy and bid documentation was not retained by district personnel. In addition, the district does not have a contract with its attorney outlining the types of services that are to be provided and at what cost. The district also does not require the attorney's office to submit detailed bills indicating the number of hours and the hourly rate charged to the district. During the year ended June 30, 2001, the district paid over \$6,000 for legal services. Without documentation, the school district cannot ensure the validity and propriety of the amount billed.

The audit also includes some matters related to the Superintendent's benefits, fixed assets records and procedures, and petty cash procedures, upon which the school district should consider and take appropriate corrective action.

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YELLOW SHEETS

LONEDELL R-14 SCHOOL DISTRICT

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Education
Lonedell R-14 School District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Lonedell R-14 School District. The school board had engaged Unnerstall & Unnerstall, Certified Public Accountants (CPAs), to audit the school district for the year ended June 30, 2001. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the school district included, but was not necessarily limited to, the year ended June 30, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the school district.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the school district's management and was not subjected to the procedures applied in the audit of the school district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Lonedell R-14 School District.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

January 4, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Alice M. Fast, CPA
In-Charge Auditor:	Douglas P. Robinson

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

LONEDELL R-14 SCHOOL DISTRICT
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Purchase of Land

- A. In January 1999, the school district purchased 25.8 acres of land at the seller's asking price of \$98,900 (\$3,833 per acre). Although there were no formal plans on how the district was going to finance the construction and operation of a new school building, school district officials indicated the land was for a future middle school to relieve the overcrowding at the current school. An appraisal of the land was not obtained prior to the purchase. As a result, the district has less assurance the price paid for the property was reasonable or represented the fair value of the property. According to the Franklin County Assessor's Office, the land purchased is appraised at approximately \$28,380 (\$1,100 per acre). The district entered into the contract to purchase the land on October 26, 1998, and closed on the property on January 22, 1999. This length of time appears to be sufficient to have a formal appraisal done on the land.

In addition, at the time of this purchase, the district's financial situation was poor and the district was placed on the financially stressed list by the Missouri Department of Elementary and Secondary Education the year after the land was purchased. Purchasing land for a future school which you have no ability to fund and while district finances are poor appears to be a questionable decision.

The district indicated they believed this was a good location, as it was at the intersection where all buses come through and there would be no additional transportation costs. They also considered purchasing land near the current school; however, none was available and there would be additional costs at this location for items such as access.

- B. The district paid \$2,083 to the father of a board member to clear the new property without adequate support for the cost. At the March 2000 meeting, the board approved paying up to \$3,050 to this person to clear the land; however, there was no documentation indicating how this amount was determined or that the district had obtained price quotes from others for this service. The individual submitted an invoice indicating the cost of the equipment rental, however, the district did not request a copy of the rental bill or any support showing the number of hours worked. Without such documentation, the district cannot determine if the price paid for the service was reasonable. While the district may have received a good deal, their documentation of the circumstances was lacking and such transactions with related parties need to be better handled.

By allowing a third party to rent equipment, the school district also incurred \$105 in sales tax. Political subdivisions are exempt from paying sales tax. In addition, an IRS 1099-MISC form was not filed for this person. Section 6041 of the Internal Revenue Code requires non-employee compensation paid of at least \$600 in a calendar year to an individual or unincorporated business to be reported to the IRS.

WE RECOMMEND the School Board:

- A. In the future, obtain an independent appraisal for any property being considered for purchase. In addition, the district should develop a long-range plan on how they intend to finance building and operating an additional facility.
- B. Require documentation to support that prices paid for services are reasonable. In addition, the School Board should ensure IRS 1099-MISC forms are prepared and submitted as required.

AUDITEE'S RESPONSE

The School Board indicated:

- A. *In the future, patrons can expect the district to obtain appraisals prior to purchasing land. During upcoming discussions on the audit report, the Board will consider how additional policies, directives, or guidelines will best serve the district in this area.*

Since voters defeated the district's last bond issue the district has not developed a specific plan to build. The Board has and will continue to consider the best method of establishing financing guidelines that will best serve the district. At this time, we have developed short/long range educational plans. If it is determined we need to build in order to meet our educational plans, we will develop guidelines prior to building.

- B. *As a general rule, the district does rent its' own equipment. In future endeavors, proper documentation and paperwork needed to support the Board's decisions will be obtained and retained. We are working with our auditor on filing an IRS 1099-MISC form and will follow his recommendation. In the event we pay sales tax in the future, we will file the request for state sales tax reimbursement with the state.*

2. Bond Refinancing

In July 2001, the school district refinanced \$475,000 in general obligation bonds. The district sold these bonds through a negotiated instead of a competitive sale. In addition, the School Board did not select the bond underwriter competitively, but used an underwriter they were familiar with. The School Board relied upon the advice of the bond underwriter instead of seeking open bids assuring the most competitive rate of return for the taxpayers.

Historically, negotiated bond sales result in increased interest costs. The additional interest cost could have been used to fund additional school purposes. As a result of the negotiated sale, taxpayers may have more debt to pay for less services.

While Missouri law does not require competitive bond sales or competition in selecting bond advisors, the historically lower interest costs on competitive sales suggest such sales to be in the best interest of the school district.

WE RECOMMEND the School Board pursue fair and open competition in any future bond sales.

AUDITEE'S RESPONSE

The School Board indicated:

The Board plans to discuss this issue in greater detail at its upcoming sessions regarding the audit report. A number of issues must be considered when hiring a bond agent/broker and the sale of bonds. Issues such as time, reliability and honesty of the broker, and the services requested. At the same time, the Board must be cognizant of the need to ensure that it is receiving the best interest rates possible - taking into account all relevant factors. The Board looks forward to a robust discussion regarding this issue at its upcoming meetings.

3.

Expenditures

- A. The district currently does not have a formal bidding policy. The district follows Section 177.086, RSMo 2000, which requires all construction projects over \$12,500 be bid. The district uses the same dollar amount for items such as supplies, materials, equipment, and contractual services. However, the district does not require bids on its purchases for amounts less than \$12,500.

In addition to complying with state law, competitive bidding helps ensure the school district receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the district's business.

A more comprehensive policy would identify specific bidding procedures that are required for purchases under \$12,500. Bids could be handled by telephone quotation, sealed bids, or advertised sealed bids. Different approaches may be appropriate, depending on the dollar amount of the purchase.

- B. Bid documentation was not retained by district personnel. At a minimum, a listing of vendors from whom bids were requested, a copy of the request for proposal, newspaper publication notices when applicable, bids received, the basis of justification for awarding bids, and documentation of all discussions with vendors should be retained by the administration.
- 1) While records indicated the district solicited bids to repave the parking lot in 1999, the documentation was incomplete. The cost of the project totaled approximately \$28,000. The administration was unable to produce documents showing all vendors receiving a request for proposal, evidence the solicitation ran in the newspaper, and responses for all vendors.
 - 2) In 1997 the district entered into a 5-year contract with B. K. Bus Service to provide student transportation. The contract was worth in excess of \$1,230,000 with actual costs equaling \$994,775 as of June 30, 2001. Though mention was made in the minute book that the district solicited other vendors, no documentation was presented to support that bids were advertised or solicited from more than one vendor.

Documentation of bids should be retained as evidence that the district's established purchasing procedures as well as statutory requirements are being followed. In addition, adequate documentation allows the school board access to more accurate information to base their decision.

- C. The district does not have a contract with its attorney outlining the types of services that are to be provided and at what cost. During the year ended June 30, 2001, the district paid over \$6,000 for legal services. Written contracts should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. In addition, Section 432.070, RSMo 2000, requires contracts for political subdivisions to be in writing.

The district also does not require the attorney's office to submit detailed bills indicating the number of hours and the hourly rate charged to the district. Without this documentation, the school district cannot ensure the validity and propriety of the amount billed.

WE RECOMMEND the School Board:

- A. Establish a bid policy for purchases less than \$12,500.
- B. Require all bid documentation be retained.

- C. Enter into a written contract with the attorney detailing the duties to be performed and the costs associated with the service. In addition, the School Board should require adequate documentation to support the attorney billings including number of hours and cost per hour.

AUDITEE'S RESPONSE

The School Board indicated:

A. *As stated in item A, the district is complying with state law, articulated in Section 177.086 of the Missouri Revised Statutes. As a common practice, the district presently seeks competitive bidding and/or performs comparison-shopping when purchasing fixed-asset items. The Board does intend to discuss this issue and develop a policy for the district on the procurement of goods and services.*

B. *As indicated in the audit report, district bid documentation was lacking. This notation is well-taken. There are a number of factors that contributed to this issue. These factors included a lack of personnel, an automobile crashing through the office wall displacing the entire office, remodeling the office, a lack of storage space, and change of administrative personnel.*

Since the beginning of the current administration, one of the district's major objectives was to centralize the process, which included bidding, file maintenance, filling out purchase orders, maintaining documentations, etc. The Board has made a concerted effort to implement this objective. We have separated the offices and hired additional staff. The latest position authorized was approved by the Board of Education at the February 19, 2002 meeting. The Board intends to continue to take a proactive approach to ensure that this objective is fully implemented.

C. *The district has requested a new letter of engagement, setting forth the terms of legal representation, from the district's law firm. The district's attorney has indicated that he is happy to provide such a letter to us. He stated that he is presently preparing an updated letter and will provide the letter to us, via facsimile, no later than Thursday, March 14, 2002. You have stated that such a letter of engagement will fulfill the District's responsibility in this area; thus, the district believes that this matter is now resolved.*

4. Superintendent's Compensation

The superintendent's contract is not clear regarding annual leave and sick leave. The superintendent's contract states he is entitled to 15 vacation days per year and unlimited sick leave as provided by board policy. The contract does not include personal days off (PDOs).

- 1) In August 2001, the superintendent received \$2,338 as payment for nine vacation days and was allowed to carry over 30 vacation days from the previous fiscal

year. According to the contract, vacation days are not cumulative and are to be used in the year earned. The contract does not state whether vacation days not used are to be paid or are lost at the end of the fiscal year.

- 2) Instead of earning sick leave, the superintendent earns 12 PDOs each year. At June 30, 2001, the superintendent was allowed to carry over 15 PDOs for use in the new fiscal year. Employees who work year round, such as the superintendent, receive a total of ten PDOs per year in place of sick leave per the district policy. The policy states that employees may accumulate up to 30 days and any amount over that will be paid.

Written contracts are necessary to ensure all parties are aware of their duties, responsibilities, and benefits and to prevent misunderstandings. When wording in a contract is vague or unclear conflicts may occur due to the interpretation. Contract terms should be clearly defined to ensure the School Board's intent.

WE RECOMMEND the School Board clarify the superintendent's contract to ensure leave benefits are properly administered.

AUDITEE'S COMMENTS

The School Board indicated:

During the audit process, it was brought to our attention that the Superintendent's contract still contained the sick leave benefit terminology instead of personal days off. The Superintendent's contract has been amended to conform to district policies. The district believes that this matter is now resolved.

5. General Fixed Assets Records and Procedures

The School District does not maintain a fixed asset list that includes all assets purchased. The teachers conduct a physical inventory of items in their classroom; however, items held by administrative and support staff are not inventoried. In addition, the district does not reconcile the physical inventories to a fixed asset list and the district does not tag or otherwise identify the fixed assets as property of the district.

Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. Additions should be reconciled to purchases annually. Complete and accurate fixed asset records are necessary to ensure better internal control over district property and provide a basis for determining proper insurance coverage. Physical inventories are necessary to ensure the fixed asset records are accurate, identify any unrecorded additions and deletions, detect theft of assets, and identify obsolete assets. Prenumbered tags, when affixed to property items, allow for identification of the property in the records and limit the potential for personal use of school district assets.

WE RECOMMEND the School Board establish property records for all fixed assets and require annual physical inventories of the fixed assets. The School Board should require additions to the fixed asset list be reconciled to purchases annually and ensure prenumbered inventory tags that label each item as "Property of Lonedell R-14 School District" are attached to district property and equipment.

AUDITEE'S COMMENTS

The School Board indicated:

The Board is aware we need to make changes outlined in your recommendations and had already started working toward meeting them. The Department of Elementary and Secondary Education (DESE) notified all schools in Missouri; prior to the audit, that we must change our fixed asset inventories to comply with GASB 34. At this time, the district has approved hiring an additional person, purchased the necessary inventory software and is in the process of setting up staff training. This should enable us to meet your recommendation and be in compliance before DESE's deadline.

6. Petty Cash Procedures

Petty cash procedures could be improved. Some payments from the petty cash fund were not supported by invoices or supporting documentation. When we conducted a count of the petty cash fund, disbursements totaling \$17 were not supported by invoices. In addition, although the administration stated they conduct a reconciliation of the petty cash fund, no supporting documentation of the reconciliation is retained. A number of people have access to the petty cash fund jeopardizing the integrity of the fund and the petty cash fund is used to cash personal checks for faculty members.

To ensure petty cash funds are used and accounted for properly and to detect any errors, the district should limit the number of people with access to the fund, disallow the practice of cashing checks, require proper supporting documentation for all disbursements, and require periodic documented reconciliations of the fund.

WE RECOMMEND the School Board limit access to the petty cash fund, disallow the practice of cashing checks from the fund, require proper supporting documentation, and require periodic documented reconciliations of the fund.

AUDITEE'S COMMENTS

The School Board indicated:

The district has amended its existing petty cash policy, Policy 3120. The policy changes specifically outline how the fund is to be used and puts one person in charge of the fund thus limiting who has access to it. It also establishes a method of accountability. By redefining the fund's uses, we have addressed how the fund will be used. We believe we have conformed with

the State Auditor's recommendations. We believe policies serve us better and are easier to enforce when they state what we are or what we can do. Policies that are written in negative "you cannot" do more than stop someone from doing something like cashing a check, they tend to stop people from doing other things that are required of them in the performance of their duty. The district believes that this issue is resolved.

This report is intended for the information of the management of the Lonedell R-14 School District and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

LONEDELL R-14 SCHOOL DISTRICT HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Lonedell R-14 School District is located in Franklin County and operates one facility that is separated into a middle school (grades 6-8) and an elementary school (grades K-5).

Enrollment was approximately 482 for the 2000-2001 school year. The district employed approximately 81 full- and part-time employees, including 3 administrators, 40 certified teachers, 27 support staff, and 11 summer staff.

The Lonedell R-14 School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

An elected board acts as the policy-making body for the district's operations. The board's seven members serve three-year terms without compensation. Members of the board at June 30, 2001, and their current terms of office are:

Name and Position	Term Expires
John Pursley, President (1)	April 2002
Warren "Spike" Huff, Vice President (1)	April 2002
Robin Huff, Treasurer (1)	April 2002
Warren Dierker Jr., Member	April 2004
Robert Bardot Jr., Member (2)	April 2004
Edward Rose, Member	April 2003
Randy Schau, Member	April 2003

(1) Officer positions are elected in April after the new officers are elected and serve a one year term.

(2) Elected to the board in April 2001, replacing Vernon Wagoner.

Other Principal Officials	Annual Compensation
Charles Rosenkoetter, Superintendent	\$ 67,538
Steve Wunderlich, School Principal	63,271
Joy Schnorbus, Special Programs Coordinator	44,387
Janet Garber, Business Manager	27,586

Assessed valuations and tax rates for the district were as follows:

	<u>2001</u>	<u>2000</u>
Assessed Valuation	\$ <u>22,592,416</u>	<u>19,972,285</u>
Tax Rate(s):		
Incidental	\$ 1.8500	1.8500
Teacher fund	1.5000	1.5000
Debt Service	.3100	.3100
Total	\$ <u>3.6600</u>	<u>3.6600</u>

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